

**REPORT OF THE AUDIT OF THE
MENIFEE COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

May 5, 2006



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MENIFEE COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

May 5, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Menifee County Sheriff as of May 5, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,053,644 for the districts for 2005 taxes, retaining commissions of \$40,684 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,012,573 to the districts for 2005 Taxes. Taxes of \$193 are due to the districts from the Sheriff and refunds of \$209 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Distribute Interest Earnings Monthly
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of December 5, 2005 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$184,238

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable James Trimble, Menifee County Judge/Executive

Honorable Rodney Coffey, Menifee County Sheriff

Members of the Menifee County Fiscal Court

Independent Auditor's Report

We have audited the Menifee County Sheriff's Settlement - 2005 Taxes as of May 5, 2006. This tax settlement is the responsibility of the Menifee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Menifee County Sheriff's taxes charged, credited, and paid as of May 5, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable James Trimble, Menifee County Judge/Executive

Honorable Rodney Coffey, Menifee County Sheriff

Members of the Menifee County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Distribute Interest Earnings Monthly
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -
September 21, 2006

MENIFEE COUNTY
 RODNEY COFFEY, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

May 5, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 120,704	\$ 262,027	\$ 398,552	\$ 149,172
Tangible Personal Property	6,777	15,120	20,361	21,671
Intangible Personal Property				6,751
Fire Protection	1,282			
Franchise Taxes:				
Billed	25,251	55,344	77,117	
Limestone, Sand and Mineral Reserves	248	534	818	306
Penalties	1,284	2,768	4,205	1,629
Adjusted to Sheriff's Receipt	(275)	(490)	(753)	(282)
Gross Chargeable to Sheriff	155,271	335,303	500,300	179,247
<u>Credits</u>				
Exonerations	1,249	2,693	4,122	1,547
Discounts	1,668	3,593	5,412	2,418
Delinquents:				
Real Estate	10,650	22,960	34,992	13,097
Tangible Personal Property	27	61	82	106
Franchise Taxes:				
Delinquent	830	1,827	2,509	
Uncollected	1,064	2,373	3,197	
Total Credits	15,488	33,507	50,314	17,168
Taxes Collected	139,783	301,796	449,986	162,079
Less: Commissions *	6,228	9,281	17,999	7,176
Taxes Due	133,555	292,515	431,987	154,903
Taxes Paid	133,462	292,302	432,023	154,786
Refunds (Current and Prior Year)	52	113	173	65
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	\$ 41	\$ 100	\$ (209)	\$ 52

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

MENIFEE COUNTY
RODNEY COFFEY, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
May 5, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on		484,577
4% on		449,986
1% on		109,081

** Special Taxing Districts:

Library District	\$	31
Health District		19
Extension District		15
Soil Conservation		4
Fire District		<u>31</u>
Due Districts	\$	<u><u>100</u></u>

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT

May 5, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT
May 5, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). On December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement; however, on December 5, 2005, \$184,238 of the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$184,238

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 27, 2005 through May 5, 2006.

Note 4. Interest Income

The Menifee County Sheriff earned \$686 as interest income on 2005 taxes. As of September 21, 2006, the Sheriff owed \$281 in interest to the school district and \$405 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Menifee County Sheriff collected \$7,547 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of September 21, 2006, the Sheriff owed \$7,547 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Menifee County Sheriff collected \$225 of advertising costs and \$375 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of September 21, 2006, the Sheriff owed \$225 in advertising costs to the county and \$375 in advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

MENIFEE COUNTY
RODNEY COFFEY, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of May 5, 2006

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earnings Monthly

The Sheriff failed to distribute \$686 of interest earned for 2005 taxes. The Sheriff should distribute the interest earned on tax collections as required. KRS 134.140(3)(b) requires the Sheriff at the time of his monthly distribution of taxes to the district board of education, to pay the board of education that part of his investment earnings for the month that is attributable to the investment of school taxes. The Sheriff is allowed to charge up to 4% of the earned monthly investment income for administrative expenses. We recommend the Sheriff distribute \$281 to the school district and \$405 to the Sheriff's fee account for interest earned on tax collections according to the requirements of the above statute.

Sheriff's Response:

Will pay on 9-22-06.

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The internal control structure lacks an adequate segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role of custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, having one person solely responsible for these duties compromises the internal control structure of the sheriff's office. Having only one individual who is responsible for all duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The Sheriff should consider implementing the following controls to help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- Sheriff agree daily and monthly tax collection totals to receipts ledger and deposit slip
- All disbursement checks are to be signed by two people and one must be the Sheriff
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

Sheriff's Response:

Will implement controls to help offset lack of adequate segregation of duties.

MENIFEE COUNTY
RODNEY COFFEY, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of May 5, 2006
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

The Sheriff Lacks An Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Trimble, Menifee County Judge/Executive
Honorable Rodney Coffey, Menifee County Sheriff
Members of the Menifee County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Menifee County Sheriff's Settlement - 2005 Taxes as of May 5, 2006, and have issued our report thereon dated September 21, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Menifee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Menifee County Sheriff's Settlement - 2005 Taxes as of May 5, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earnings Monthly

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 21, 2006

